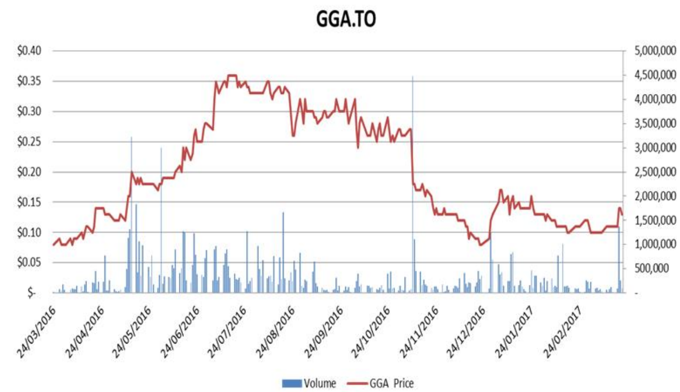
GOLDGROUP MINING, INC.
Canada (TSX, GGA.TO) Mexico (SIC, GGA.N)
Business: Precious Metals mining (Gold)

Date: March 31st, 2017
Price target: CAD $ 0.88

Price:	CAD$ 0.13
Ex. Rate = USD/CAD	0.7471
Mexican shs/Canadian shs	(1:1)
52- WK Range	CAD $ 0.05 - 0.39
Mkt. Cap. (000,000)	CAD $ 42.4 mill.
Sh. Outstandibg (000)	185,137,000
Avg. Daily Vol. (6mths)	255,541
Bk. Value / Share	CAD$0.07
Dividend / Yield	__

Net Profit (Loss) Before Comprehensive Income CAD$/Share	
2016E	**$0.02**
2015	(0.16)
2014	(0.44)

Comprehensive Income mostly includes changes in value of ready-for-sale investments



BUSINESS DESCRIPTION

GoldGroup Mining is a Canadian-based gold producer focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The company's current gold production, exploration, and development activities are conducted exclusively in Mexico, one of the world's most favorable mining jurisdictions. The management's goal is to develop GoldGroup into a premier gold producer.

Investment Summary Highlights

- *There is much greater visibility in GoldGroup regarding numbers of future production, sales and cash-flow, on which to base projections. This gives greater credibility to a DCF valuation.*
- *This is due to a) stable production in the Cerro Prieto mine, b) highly probable production will begin this year or next in the San Jose de Gracia mine, and scaled up quickly, c) initiation of production in the El Mozo project (Ecuador).*
- *Costs will continue to improve (AISC) in Mexico, and in Ecuador, costs will be lower due to higher recovery.*
- *Gold price is firming but we maintain the current price for our projections.*
- *There is substantial optionality value for Gold Group in Dynasty Metals and Mining, which owns Peruvian properties with 6.0 million ozs. of potential reserves. Acquisition by GG is likely, and will guarantee future increase in the reserve base.*
- *Our estimates for cash-flow, value of operating assets and the value of equity are based on very conservative assumptions. Based on these we calculate a value for the equity of the company at US$121.8 million, or CAD 88 cents/share*

RECAP OF SOME COMMENTS FROM OUR WRITE-UP OF SEPTEMBER 2016

In our research piece of September 31st, 2016 we outlined the origins of GoldGroup, and highlighted that last year was a watershed for the company basically because a)The company consolidated its asset base through timely disposal of certain properties, and acquisiton of others. b) in its Cerro Prieto mining property, GG achieved its stated goal of production and sale of 15´743 ozs./gold. , c) GG had obtained a favorable resolution through arbitrage in Denver, Co. in the dispute with Dyna Resources. This ruling reaffirmed the company´s ownership of 50.0% of the San Jose de Gracia mine in Sinaloa, a property with very important potential in the production of high-grade ore;

Additionally, GG announced the purchase of a stake in the El Mozo property in Ecuador, which is expected to produce about 20'000 ozs. gold this year.

Goldgroup´s main shareholders are in the process of acquiring a controlling stake in the Dynasty group in Ecuador, although for purposes of valuation we will not yet include this, as it is not yet formally incorporated into GG´s holdings.

UPDATE OF OUR VALUATION MODEL FOR THE EQUITY OF GOLDGROUP

- Firstly we calculate the value of production/sales from the three main properties: Cerro Prieto in Mexico, El Mozo in Ecuador, and San Jose de Gracia. For this last mine we are estimating that production will being in earnest in 2018 with 25'000 ozs. gold/yr., due to the need to make effective court rulings regarding ownership, and the need for management to arrive at a suitable arrangement with Dyna Resources to begin sustainable production.
- We estimate a price of gold equal to its current level of 1,235 dls./oz. throught the seven year period of our calculations, even though there is a good likelihood the price will increase over this period.
- All-in Sustaining Cost for the Mexican properties is estimated at 900 dlls./oz. and 600 dlls./oz. for the El Mozo mine, due to its higher recovery.
- Based on these revenues we arrive at an operating margin of around 32.0%, from which we subtract a capital expenditure of around 40.0% of after-tax operating dollars, which brings us to a "Free Cash-Flow to the Firm". (Management has said it will not need to make significant capital expenditure to build out the SJ deG or El Mozo mines, but we prefer to build this estimate into our assumptions).
- To arrive at the Cost of Capital, we use an after-tax cost of debt of 6.58%. (although the company has said it does not need debt, we assume a 33/67 % debt/equity mix). We estimate the cost of equity to be 11.25% based on an equity risk-premium of 5.0% and a unlevered beta of 1.7 times,
- Weighted Cost of Capital is therefore 9.5%.
- For the terminal value after year 8 we apply a growth rate of 3.0%/yr.

CASH-FLOWS IN US$ (000) FOR OUR ESTIMATION PERIOD (7 YEARS, AND YEAR 8 FOR TERMINAL VALUE)

	USD '000					
	Revenue	**EBIT/Revenue**	**EBIT (1-t)**	**After tax Ebit**	**Reinvestment**	**FCFF**
1	$ 30,875	31.98%	$ 6,913	22.39%	$ 1,843	$ 5,069
2	$ 80,275	34.60%	$ 19,443	24.22%	$ 5,185	$ 14,258
3	$ 80,275	34.60%	$ 19,443	24.22%	$ 5,185	$ 14,258
4	$ 86,450	34.07%	$ 20,615	23.84%	$ 5,497	$ 15,118
5	$ 92,625	33.60%	$ 21,788	23.52%	$ 8,715	$ 13,073
6	$ 92,625	33.60%	$ 21,788	23.52%	$ 8,715	$ 13,073
7	$ 92,625	33.60%	$ 21,788	23.52%	$ 8,715	$ 13,073
8	**$ 92,625**	**35.22%**	**$ 22,838**	**24.65%**	**$ 9,135**	**$ 13,703**

A. Terminal Value	$ 206,363
B. PV (terminal value)	$ 98,828
C. PV (operating Cash Flow over 7 years)	$ 60,405
Value of Operating Assets (B + C):	**$ 159,233**
Value of Operating Assets @ 80.0%	**127,388**
-Debt	-$ 6,716
-Commitments (earn-ins)	-$ 1,210
- Option value of Warrants	-$ 239
+Cash	$ 2,625
= Value of Equity	**$ 121,841**
Shares Outstanding	185,137
Value/Share: US$0.66; CAD $0.88	

The Story behind the numbers:

- *The main value driver of this small miner is the capacity to bring gold production from 20,000 ozs./yr. to about 75,000 ozs./yr. over the next 7/8 years and achieve this in a cost-efficient manner. Management's strong track record is the key to achieving this.*
- *This will result in a 18.6% growth /yr. in operating margin.*
- *The return on invested capital of close to 50.0% (after growth stabilizes), provides the high marginal return on investment, and strong cash flow which should allow growth without the need for debt. This reduces the macro risk attached to the price of gold*
- *According to our calculations, about 60.0% of the value of the firm proceeds from its terminal value which will require heavy investment in finding/acquiring new reserves for long-term growth.*
- ***We give an 80.0% probability of success to our projected outlook, and therefore, we reduce the estimated value of operating assets by 20.0%.***

Summary of assumptions for DCF Estimates

	Year 1-7		Year 8 +
Growth in revenues:	17.0% YR.		-
Growth in operating income:	18.60% YR.		3.0%
After –tax operating margin:	24.65%		24.65%
Re-Investment rate:		40.0% of After-Tax Operating income	
Mexican tax rate:		30.0%	
Return on capital (AT op income/ (Debt-Cash+equity):		46.5% (after yr.3)	
Cost of Capital:	Equty		Debt
Risk Free Rate (10 yr. UST)	2.70%		2.70%
Risk Premium / Spread over UST for Mex debt	5.00		500 BP
Beta / Mexican Credit Default Swap	1.70		1.71
Sum of Parts	**11.2%**		**9.41 (1-T)= 6.6%**
Weighted Average Cost of Capital: (11.2x.65)+(6.6x.35)		**9.5%**	

Gold Group
Estimated Production / Sales of Gold
and Gold Equivalent and Free cash -Flow to Firm

	Production Gold / oz. yr.							Pre-Tax Margin	After –tax Margin	Expansion Capital	Free-Cash to Firm
	Year	Cerro Prieto	El Mozo	San Jose de Gracia	Total	Price of Gold	Weighted AIS Cost	AISC Margin in USD	PTM (1-.30)	ATM x 0.40	
1	2017	20,000	5,000	0	25,000	1,235	840	$ 9,875,000	$ 6,912,500	$ 1,843,333	**$ 5,069,167**
2	2018	20,000	20,000	25,000	65,000	1,235	808	$ 27,775,000	$ 19,442,500	$ 5,184,667	$ 14,257,833
3	2019	20,000	20,000	25,000	65,000	1,235	808	$ 27,775,000	$ 19,442,500	$ 5,184,667	$ 14,257,833
4	2020	20,000	20,000	30,000	70,000	1,235	814	$ 29,450,000	$ 20,615,000	$ 5,497,333	$ 15,117,667
5	2021	20,000	20,000	35,000	75,000	1,235	820	$31,125,000	$ 21,787,500	$ 8,715,000	$ 13,072,500
6	2022	20,000	20,000	35,000	75,000	1,235	820	$ 31,125,000	$ 21,787,500	$ 8,715,000	$ 13,072,500
7	2023	20,000	20,000	35,000	75,000	1,235	820	$ 31,125,000	$ 21,787,500	$ 8,715,000	$ 13,072,500
8	2024	0	25,000	50,000	75,000	1,235	800	$ 32,625,000	$ 22,837,500	$ 9,135,000	$ 13,702,500
										$ 52,990,000	

All figures are based on Company Reports at 30.09.2016. (SEDAR)

Note: GGA owns 50.0% of the San Jose de Gracia mine, but we are including its production as if consolidated.

Disclosure: I do not own shares of Goldgroup. A related party of mine does own shares of the company, as also people whose funds I advise. This report is not a solicitation to buy or sell securities. Alexander Anderson nor Corde Asesores, S.C. is responsible for any losses resulting from purchasing or disposing shares of Goldgroup. You are advised to consult your financial advisor or conduct the due diligence yourself.

We are grateful to Mariusz Skonienczny, whose publication "Ultimate Value Finder" has been a very valuable source of information and statistics used in this analysis. We have also used information from a recent public interview by Mr. Keith Piggott, CEO of GGA.

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